

Required Minimum Distributions from Retirement Accounts Under the Economic Stimulus Proposals Related to the Coronavirus (COVID-19)

March 24, 2020

On March 22, 2020, the Senate released an updated version of the [Coronavirus Aid, Relief, and Economic Security \(CARES\) Act](#) containing a provision for suspending the penalty for failure to make the required minimum distribution (RMD) from retirement accounts for 2020. A similar provision was included in a proposal in the House released on March 23, the Take Responsibility for Workers and Families Act.

What Are Required Minimum Distributions?

Under current law, [required minimum distributions](#) must be withdrawn from individual retirement plans to avoid a 50% penalty on the required minimum distribution (RMD) amount. The required distribution amount is the minimum amount that must be withdrawn each year after the account holder reaches a certain age. These requirements apply to traditional IRAs and plans set up by employers, such as 401(k) plans. (They do not apply to individual Roth IRAs, although they do apply to Roth 401(k) plans.) Account holders are not required to take distributions from 401(K) plans if they are still working.

Distributions must begin in the year when an individual turns 72 (70½ for individuals attaining that age before January 1, 2020). The increase in the age at which minimum distributions must be made to avoid the penalty was changed by recent legislation, the Setting Every Community Up for Retirement Enhancement (SECURE) Act, part of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94). The penalty is imposed to prevent individuals from keeping funds in their retirement accounts, without paying taxes, indefinitely. For the first year that distribution requirements apply, distributions can be delayed until April 1 of the following year.

The amount of the distribution is based on life expectancy and the account balance at the end of the previous year. For singles and spouses whose ages are less than 10 years apart, the [uniform lifetime table](#) is used to determine the RMD. The share of retirement assets that must will be distributed increases with

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age. For example, the uniform life table indicates that 3.6% of the balance will be distributed at age 70, 5.3% at age 80, and 8.8% at age 90. Other life tables are used in other circumstances.

Why Suspend Required Minimum Distributions?

The primary rationale for suspending the penalty appears to be to protect assets, not to stimulate spending, in retirement accounts from the effects of the decline in the stock market. For example, in 2020, the [Dow Jones Industrial Average](#) declined by 31% (through March 20). Under current law, a minimum distribution may cause a larger share of current assets to be distributed, occurring when the stock market is at a (presumably temporary) low value. Because the RMD is based on asset values at the end of the previous year, the required distribution will be a percentage of the larger asset value at that time. In addition, individuals who were required to make their first distributions in 2019 could defer the distribution until April 1, 2020, and will have to make two distributions in 2020, an issue that has [also raised some immediate concerns](#). (Some institutions make distributions at the beginning of the year, and these distributions would have already occurred, although they would not have been affected by the recent stock market decline.)

Assets distributed (net of tax) could still be re-invested in the stock market in a taxable account (there is no requirement to spend the RMD) but a tax would be paid (if the taxpayer does not have other funds available) based on the sale of assets at a low point in their value.

A similar provision was enacted in 2008 in the Worker, Retiree, and Employer Recovery Act of 2008 (P.L. 110-458) when the stock market also fell during the Great Recession. RMDs were suspended for 2009. One study of the 2009 one-year suspension found that approximately one-third of those affected by RMD rules in 2008 suspended their RMDs in 2009, following this policy change ([Brown, Poterba, and Richardson; 2017](#)). This study also observed that older taxpayers were less likely to suspend RMDs in 2009. Those with more financial resources were somewhat more likely to suspend RMDs.

The suspension of the required minimum distributions would have a greater effect on higher-income households because lower- and middle-income households are less likely to have accounts with required distributions and less likely to be able to defer distributions.

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